

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2011

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HOUSE BILL 242  
Committee Substitute Favorable 4/19/11  
Committee Substitute #2 Favorable 5/26/11

Short Title: Nat. Gas/Bonds/Fees/Studies.

(Public)

Sponsors:

Referred to:

March 8, 2011

A BILL TO BE ENTITLED

AN ACT TO (1) INCREASE THE AMOUNT OF THE BOND REQUIRED UPON REGISTRATION IN ORDER TO DRILL FOR OIL OR NATURAL GAS IN THE STATE; (2) INCREASE THE AMOUNT OF FEES APPLICABLE TO DRILLING AND ABANDONING OIL OR GAS WELLS; (3) DIRECT THE DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES TO STUDY THE ISSUE OF OIL AND GAS EXPLORATION IN THE STATE, AND SPECIFICALLY THE USE OF DIRECTIONAL AND HORIZONTAL DRILLING AND HYDRAULIC FRACTURING FOR THAT PURPOSE; (4) DIRECT THE DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES TO CONDUCT AT LEAST TWO PUBLIC HEARINGS ON THE ISSUE IN THE AREA IN WHICH EXPLORATION FOR NATURAL GAS BY MEANS OF DIRECTIONAL AND HORIZONTAL DRILLING AND HYDRAULIC FRACTURING MAY OCCUR; AND (5) APPROPRIATE THE SUM OF ONE HUNDRED THOUSAND DOLLARS TO THE DEPARTMENT FOR THE CONDUCT OF THE STUDY AND THE HEARINGS.

The General Assembly of North Carolina enacts:

**SECTION 1.** G.S. 113-378 reads as rewritten:

**"§ 113-378. Persons drilling for oil or gas to register and furnish bond.**

Any person, firm or corporation before making any drilling exploration in this State for oil or natural gas shall register with the Department of Environment and Natural Resources or such other State agency as may hereafter be established to control the conservation of oil or gas in this State. Resources. To provide for such registration, the drilling operator must furnish the name and address of such person, firm or corporation, and the location of the proposed drilling operations, and file with the aforesaid Department a bond in the an amount totaling the sum of ~~of~~ (i) five thousand dollars (\$5,000) plus (ii) one dollar (\$1.00) per linear foot proposed to be drilled for the well. (\$5,000) running to the State of North Carolina, conditioned that any Any well opened by the drilling operator upon abandonment shall be plugged upon abandonment in accordance with the rules of said the Department."

**SECTION 2.** G.S. 113-395 reads as rewritten:

**"§ 113-395. Notice and payment of fee to Department before drilling or abandoning well; plugging abandoned well.**

Before any well, in search of oil or gas, shall be drilled, the person desiring to drill the same shall notify the Department upon such form as it may prescribe and shall pay a fee of ~~fifty-three thousand~~ thousand dollars (~~\$50.00~~(\$3,000)) for each well. The drilling of any well is hereby prohibited until such notice is given and such fee has been paid and permit granted.



1 Each abandoned well and each dry hole ~~promptly~~ shall be plugged promptly in the manner  
2 and within the time required by rules ~~to be prescribed~~ by the Department, and the owner of  
3 such well shall give notice, upon such form as the Department may prescribe, of the  
4 abandonment of each dry hole and of the owner's intention to abandon, and shall pay a fee of  
5 ~~fifteen four hundred fifty dollars (\$15.00)~~ (\$450.00). No well shall be abandoned until such  
6 notice has been given and such fee has been paid."

7 **SECTION 3.** The Department of Environment and Natural Resources shall study  
8 the issue of oil and gas exploration in the State and the use of directional and horizontal drilling  
9 and hydraulic fracturing for that purpose. The Department shall report its findings and  
10 recommendations, including specific legislative proposals, to the Environmental Review  
11 Commission no later than February 1, 2012. At a minimum, the study shall include information  
12 on the following:

- 13 (1) Oil and gas reserves present in the Triassic Basins and in any other areas of  
14 the State.
- 15 (2) Methods of exploration and extraction of oil and gas, including directional  
16 and horizontal drilling and hydraulic fracturing.
- 17 (3) Potential impacts on infrastructure, including roads, pipelines, and water and  
18 wastewater services. In analyzing potential impacts, the Department shall  
19 specifically examine the expected water usage from hydraulic fracturing,  
20 water resources in the area in which drilling may occur, as well as existing  
21 water users in the area that may be impacted by increased consumption of  
22 water for use in hydraulic fracturing.
- 23 (4) Potential environmental impacts, including constituents or contaminants that  
24 may be present in the fluid used in the hydraulic fracturing process; the  
25 potential for the contamination of nearby wells and groundwater, as well as  
26 the options for disposal and reuse of the wastewater produced; stormwater  
27 management; the potential for emission of toxic air pollutants; impacts on  
28 wildlife; management and reclamation of drilling sites, including orphaned  
29 sites; management of naturally occurring radioactive materials (NORM)  
30 generated by the drilling and production of natural gas; and the potential for  
31 seismic activity in the area in which drilling may occur. In examining this  
32 issue, the Department shall formulate regulatory requirements advisable to  
33 address potential environmental impacts and in doing so shall gather  
34 information on regulatory programs in other states where oil and gas  
35 exploration or extraction is occurring, particularly with regard to the use of  
36 hydraulic fracturing for that purpose.
- 37 (5) Potential economic impacts, including possible sources of revenue that could  
38 accrue to the benefit of the State in the event that drilling for oil or natural  
39 gas were to take place in the State. In examining this issue, the Department  
40 shall gather information on (i) the number of jobs that may be expected as a  
41 result from drilling activities in the State and (ii) what severance taxes, fees,  
42 royalties, bonds, or assessments may be appropriate in connection with the  
43 activity. For any sources of revenue that may be anticipated, the Department  
44 shall evaluate use of the revenue for the following purposes: funds necessary  
45 to implement an oil and gas regulatory program; funds dedicated to the  
46 conservation and preservation of land and water resources; funds dedicated  
47 to remediation of environmental contamination such as the Inactive  
48 Hazardous Sites Cleanup Fund; and funds dedicated to improving water and  
49 wastewater infrastructure across the State.

- 1 (6) Potential social impacts, including impacts of drilling operations on nearby  
2 communities and quality of life within those communities, recreational  
3 activities, and commercial and residential development.
- 4 (7) Potential oversight and administrative issues associated with an oil and gas  
5 regulatory program, including statutory authority necessary for  
6 implementation of such a program; funding requirements necessary to  
7 implement a stable and effective program; criteria for permit issuance or  
8 denial; frequency and scope of inspections; compliance and enforcement  
9 procedures; coordination of agency involvement to ensure efficient  
10 permitting and clear delineation of compliance responsibilities; opportunities  
11 for public participation; and data management.
- 12 (8) Consumer protection and legal issues relevant to oil and gas exploration in  
13 the State, including matters of contract law, mineral leases, and landowner  
14 rights.
- 15 (9) Any other pertinent issues that the Department deems relevant to oil and gas  
16 exploration in the State and the use of hydraulic fracturing for that purpose.

17 **SECTION 4.** By February 1, 2012, the Department of Environment and Natural  
18 Resources shall hold at least two public hearings at separate locations within the Triassic Basin  
19 on the issue of drilling for natural gas by means of directional and horizontal drilling and  
20 hydraulic fracturing. The public hearings shall be conducted in order to promote awareness of  
21 the issue generally and inform and consult with the public and user groups on potential  
22 environmental impacts, potential regulatory controls, potential economic impacts, and  
23 consumer protection issues, including landowner rights and mineral leases. In developing the  
24 consumer protection portion of the public hearings, the Department shall consult with the  
25 Consumer Protection Division of the North Carolina Department of Justice and the Rural  
26 Advancement Foundation International (RAFI).

27 **SECTION 5.** There is appropriated from the General Fund to the Department of  
28 Environment and Natural Resources the sum of one hundred thousand dollars (\$100,000) for  
29 the 2011-2012 fiscal year to complete the study and conduct the public hearings required by  
30 this act.

31 **SECTION 6.** This act is effective when it becomes law.